Giving Credit to Moneylenders!

This set of excerpts is a debate on moneylenders – rural moneylenders.

With an increasing focus on livelihoods, those working among the marginalised communities are relating to issues of credit, investments and returns to producers with a greater understanding and respect.

Pallavi Chavan considers extending this understanding, acceptance and respect to moneylenders to be a regression. It takes away the responsibility of formal institutions of credit and investment for their failure to reach out to the small farmer and producer in rural areas.

Theirs is a response to an earlier piece by **Shishir Sharma** and **S Chamala**, who detect a positive side to moneylenders, and the need for a greater acceptance of informalisation of credit in rural areas.

Not so, says Chavan. Informalisation is part of insidious financial liberalization – the moneylender may be more accessible, but is nonetheless exploitative. Liberalisation will lead to greater oppression and give the moneylender a stranglehold on the livelihood of producers.

Moneylender's Positive Image: Paradigms and Rural Development, *Shishir Sharma, S Chamala.* *Economic And Political Weekly*,
Vol 38. No.17 April 26 -May 02, 2003.
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Moneylender's Positive Image: Regression in Development Thought and Policy, *Pallavi Chavan, Economic and Political Weekly*, Vol.38. No.50 December 13,
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Moneylender's Positive Image:
Paradigms and Rural Development

Shishir Sharma, S Chamala

In general, the rural moneylender as a species has proved surprisingly resilient, even in countries such as India and Indonesia where it has been a declared objective of state intervention in financial markets to suppress him. (Hulme and Mosley, 1996:74-75)

Thought and practice in the field of development through credit have been undergoing a change in recent years. This change is a reflection of the challenges faced by rural credit institutions, which plagued by various systemic and structural problems, have achieved only limited success in achieving their goals. One major objective behind the development of rural credit institutions had been to save the rural poor from the exploitation of the moneylenders.

Traditionally, the image of moneylenders has been negative in that they charge usurious rates of interest, and encourage poor people to incur unproductive expenses to trap them into perpetual indebtedness or to capture their assets.

Thus, the moneylender has been perceived as one of the major contributors to rural poverty and a major obstacle to the welfare of small rural agriculturists and small entrepreneurs. This negative image became a basic assumption in rural finance in developing countries. It was held that the moneylender be either ‘removed’ or ‘stymied’ so that his negative influence may not adversely affect the development processes.

In India, development programmes for small farmers and poverty alleviation programmes were formulated for liberating the rural poor from the ‘exploitative grip’ of moneylenders.

The negative image paradigm has been dominant in the approach to rural finance design in the half century of multidisciplinary development since Indian independence in 1947. However, in larger thought in the field there has been a parallel building-up of a distinct paradigm which strongly advocates the involvement of moneylenders in the development process. This paradigm which could be termed as 'positive image paradigm', has provided the most forceful challenge to the negative image paradigm, by far.

This positive paradigm has, however, so far achieved only partial success and it is apparent that the dominant negative paradigm has not yet yielded much ground in development finance practice nor has it had any significant impact on designs focused on rural poor, women, and other disadvantaged. One reason for this could be the perception of the positive image of the moneylender as a 'romanticised'[2] or idealised image which represents inadequate and unconvincing reality to the practice. Additionally, the negative image paradigm has developed over a very long period by economic and cultural processes, and therefore it has had consistent effect in building thought and practice.

Current Practice, Future Implications

Since the positive paradigm posits that the moneylender is not a cause of rural poverty it poses serious questions about the validity of the basic premise of rural credit organisations in developing countries, viz, that the rural poor need to be liberated from the usurious interest rates of the moneylender in order to increase the productivity of the poor people, to reduce social inequality, and to enable the poor to meet their basic needs.

However, the positive paradigm is unable to dislodge the socio-economic practice in the rural credit organisations. Its position is weakened by not sufficiently orienting itself to the evolving scenario wherein the rural credit organisation consists of both government and non-government type of organisations.

It does not proffer strategies for integrating the positive-image based economic thought with contemporary negative-image which is based on socially-tempered economic thought and practice, eg, even the most successful and celebrated programmes for poor women such as *Grameen* Bank (Bangladesh), *SEWA* Bank (India) and numerous other lesser-known governmental/NGO programmes are based on the liberation of the poor women from the moneylenders as one of their main objectives.

According to Hossain (1984), in addition to Grameen Bank's main objective of poverty alleviation through providing credit to the poor, "another objective of the Bank is to eliminate the exploitation by the moneylenders. The bank operation may partly replace the non-institutional credit market through which the rural rich exercise their control over the rural poor" [Hossain 1984:10].

Despite the voluminous literature on the exploitation by this traditional institution, and the attack on it through international, national, philanthropic, voluntary, governmental and non-governmental efforts to reduce the social and economic exploitation of the poor by them, moneylenders have prevailed. Their very persistence and the limited success of the intervention to remove them highlight the oversight of the development theorists and managers in not recognising the moneylender as a significant institution of the underdeveloped areas and the 'courage' of this 'barefoot' figure (as Adams referred to it).

Mellor had in fact, asserted in 1968 that, in the context of the Indian rural development policies, the "major efforts at developing credit programmes as one of the first assaults of the agricultural development effort were based on the erroneous assumptions that moneylenders were collusive and monopolistic and tended to exploit the agriculturist"(1968:66).

As for practice, perhaps Padmanabhan's position summarises the emerging attitude: "For better or worse, informal lenders will continue to operate in rural areas, and it would be unwise not to recognise their contribution to rural development" (1988:92). There is no reason to doubt the progress of the new paradigm in the next century, though practice will take some time to catch up.

One possibility is that of linking moneylenders with the banking institutions as a conduit. Another option is to adopt the chit fund (a saving-cum-credit mechanism) which may be operated by moneylenders. This is an option which might find more social acceptability and would require less change in the development managers' orientation. Yet another option is to make the moneylender a part of the micro-finance system. Making the moneylender a conduit for credit to the poor in social group could be an option which might probably make rural credit and micro-financing attractive to the banks and international lenders.